

## SUMMARY - STATEMENT NO. 67

### SUMMARIES / STATUS

#### SUMMARY OF STATEMENT NO. 67

#### FINANCIAL REPORTING FOR PENSION PLANS—AN AMENDMENT OF GASB STATEMENT NO. 25 (ISSUED 06/12)

The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

This Statement and Statement 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The scope of this Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered, as follows:

- ▶ Single-employer pension plans—those in which pensions are provided to the employees of only one employer (as defined in this Statement)
- ▶ Agent multiple-employer pension plans (agent pension plans)—those in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees
- ▶ Cost-sharing multiple-employer pension plans (cost-sharing pension plans)—those in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria.

## **Defined Benefit Pension Plans**

### **Financial Statements**

This Statement requires defined benefit pension plans to present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement of fiduciary net position presents the following items as of the end of the pension plan's reporting period, as applicable:

- ▶ Assets, such as cash and cash equivalents, receivables from employers and plan members, investments (measured at fair value), and equipment and other assets used in pension plan operations
- ▶ Deferred outflows of resources
- ▶ Liabilities, such as benefit payments due to plan members
- ▶ Deferred inflows of resources
- ▶ Fiduciary net position, which equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflows of resources.

The statement of changes in fiduciary net position presents the following items for the pension plan's reporting period:

- ▶ Additions, such as contributions from employers, nonemployer contributing entities, and plan members, and net investment income
- ▶ Deductions, such as benefit payments and administrative expense
- ▶ Net increase (decrease) in fiduciary net position, which equals the difference between additions and deductions.

In addition to the requirements of this Statement, defined benefit pension plans also should follow all accounting and financial reporting requirements of other standards, as applicable.

### **Notes to Financial Statements**

This Statement requires that notes to financial statements of defined benefit pension plans include

descriptive information, such as the types of benefits provided, the classes of plan members covered, and the composition of the pension plan's board. Such pension plans also should disclose information about pension plan investments, including the pension plan's investment policies, a description of how fair value is determined, concentrations of investments with individual organizations equaling or exceeding 5 percent of the pension plan's fiduciary net position, and the annual money-weighted rate of return on pension plan investments. Other required note disclosures include information about contributions, reserves, and allocated insurance contracts.

Single-employer and cost-sharing pension plans also should disclose the following information:

- ▶ The portion of the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive plan members that is attributed to those members' past periods of service (the total pension liability), the pension plan's fiduciary net position, the net pension liability, and the pension plan's fiduciary net position as a percentage of the total pension liability
- ▶ Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc cost-of-living adjustments [COLAs]), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.

### **Required Supplementary Information**

This Statement requires single-employer and cost-sharing pension plans to present in required supplementary information the following information for each of the 10 most recent fiscal years about employer and nonemployer contributing entity obligations for pensions provided through the pension plan:

- ▶ Sources of changes in the net pension liability
- ▶ Information about the components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

If the contributions of employers or nonemployer contributing entities to a single-employer or cost-sharing pension plan are actuarially determined, the pension plan should present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. Significant methods and assumptions used in calculating the actuarially determined contributions should be presented as notes to the schedules.

All defined benefit pension plans, including agent pension plans, should present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on pension plan investments for each year. In addition, all pension plans should explain factors that significantly affect trends in the amounts reported in the schedules of required supplementary information, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

### **Measurement of the Net Pension Liability**

This Statement requires the net pension liability to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the pension plan's fiscal year-end, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation

(performed as of a date no more than 24 months prior to the pension plan's fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total pension liability are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end and to incorporate the effects of projected salary changes (if the pension formula incorporates compensation levels) and service credits (if the pension formula incorporates periods of service), as well as projected automatic postemployment benefit changes (including automatic COLAs). Projections also are required to include the effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

The actuarial present value of projected benefit payments is required to be attributed to periods of plan member service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each plan member individually, from the period when the plan member first accrues pensions through the period when the plan member retires.

### **Defined Contribution Pension Plans**

In the notes to financial statements, defined contribution pension plans should disclose the classes of plan members covered; the number of plan members, participating employers, and, if any, nonemployer contributing entities; and the authority under which the pension plan is established and may be amended.

### **Effective Date and Transition**

This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

### **How the Changes in This Statement Will Improve Financial Reporting**

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. The comparability of the reported information for similar types of pension plans will be improved by the changes related to the attribution method used to determine the total pension liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the

pension plan's ability to pay benefits to plan members when they come due.

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Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 5 discusses the applicability of this Statement.